

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 96-010-G - ORDER NO. 96-740
OCTOBER 25, 1996

IN RE: Annual Review of Purchased Gas)	ORDER
Adjustment and Gas Purchasing)	APPROVING
Policies of South Carolina)	COST OF GAS AND
Electric & Gas Company)	ENVIRONMENTAL
)	CLEAN-UP COSTS

On October 17, 1996, the Public Service Commission of South Carolina (the Commission) held its Annual Review of the Purchased Gas Adjustment (PGA) and the Gas Purchasing Policies of South Carolina Electric & Gas Company (SCE&G or the Company). Also, pursuant to Order No. 94-1117, dated October 27, 1994, in Docket No. 94-008-G, the Commission considered the collection of environmental clean-up costs for the period under review.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice concerning the annual review of the PGA and the Gas Purchasing Policies, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice indicated the nature of the review, and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceeding. The Company was instructed to directly notify all of its customers affected by the review of the PGA, also. The Company

submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing on the annual review was held on October 17, 1996 at 10:30 a.m. with the Honorable Guy Butler, Chairman, presiding. SCE&G was represented by Francis P. Mood, Esquire, and Belton T. Zeigler, Esquire; the Intervenor, Consumer Advocate, was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel.

At the time of the hearing, the Company presented the testimony of Warren A. Darby, Carey M. Flynt, and Thomas N. Effinger. The Commission Staff presented the testimony of Thomas L. Ellison and William O. Richardson.

Warren A. Darby, Vice President, Gas Operations of SCE&G, presented testimony explaining the gas purchasing policies of SCE&G, and the importance of the Industrial Sales Program (ISP). Darby further testified about the Manufactured Gas Plant-Environmental Clean-Up Costs (MGP-ECC) factor, and the requested treatment of a \$26 million settlement of environmental claims by the City of Charleston against the Company.

Darby testified that SCE&G has a contract with South Carolina Pipeline Corporation (SCPC) to provide all of its natural gas requirements under SCPC Tariffs DS-1, DISS-1, and the ISP Rider (ISP-R), all of which have been approved by the Commission. SCE&G receives an invoice from SCPC each month. Darby testified that SCE&G receives its gas from SCPC through 141 delivery points where

the gas is metered and billed on a monthly basis. Darby further indicated that SCE&G does not own or operate a pipeline system connecting these various delivery points. Darby noted that SCE&G relies on SCPC as a merchant of gas for several reasons. First, SCPC, according to Darby, has staff in place to fulfill this function. Second, SCPC aggregates demand for approximately 16 sale-for-resale distribution companies, and therefore, becomes a stronger participant in gas markets. Darby also stated that SCPC can negotiate larger and more favorable long-term gas supply contracts than could any single company standing alone. Third, as an aggregator of demand, Darby testified that SCPC has superior ability to deal with marketing and supply.

With regard to the ISP-R, Darby testified that the Plan has been subject to periodic review and continuation by the Commission. Under this procedure, customers with contracts containing a competitive fuel rate advise the Company several days prior to the beginning of the billing period of the as-fired cost of their alternate fuel. The Company subtracts its markup and then makes an allowance for system losses and revenue taxes to determine the maximum price it can pay its supplier for the volume of gas required to purchase and resell to the customer invoking the competitive fuel rate. To the extent that the Company's supplier has ISP-R volumes available, the Company purchases these volumes required for all competitively priced customers. Darby testified that any margins collected from ISP-R sales above the contracted margins are credited to the customers as a credit to SCE&G's

weighted average cost of gas (WACOG). Darby also stated that, during the period of September 1995 through August 1996, the elimination of the ISP-R Program would have resulted in the elimination of all the ISP-R sales for SCE&G for nine months of the period, and the partial loss of sales for three months.

Darby also related several steps by which SCE&G has attempted to ensure a reliable gas supply to all of its customers, including the use of propane air plants. All in all, Darby stated that SCE&G's reliance on SCPC as a merchant reduces administrative costs, increases effective market power, and increases system reliability in an increasingly challenging deregulated market.

Darby further noted that the Company was requesting no change in the current level of the MGP-ECC factor of \$.006 per therm. However, Darby did provide additional information regarding additional potential liability associated with the site of an old manufactured natural gas plant in Charleston. The City of Charleston asserted claims against SCE&G for environmental damages to the City's waterfront property development. An agreement has been reached between SCE&G and the City of Charleston whereby SCE&G will pay the City of Charleston \$26 million over four years to settle all environmental claims the City has against the Company involving the Calhoun Park area. The funds will support any past and future costs, incurred by the City in developing waterfront property and in installing its storm water collection system, as a result of SCE&G's and its predecessor companies' operation of a manufactured gas plant near this site during the 1850s and up

through the 1960s. The City will release SCE&G from any environmental claims related to the development. The Calhoun Park area includes waterfront property on which the South Carolina Aquarium, the Charleston Maritime Center, and a new parking garage will be constructed. The property has been determined to have environmental contamination. SCE&G is requesting that this \$26 million be included in the unamortized balance but to leave the MGP-ECC factor at the current level of \$.006 per therm during the next annual period. SCE&G is in litigation with its insurers, principally those in the London market, to recover a substantial portion of its costs related to the Calhoun Park and other sites. A settlement of this claim is anticipated, although the amount is not known at this time. The likelihood of settlement is supported by the fact that several other smaller insurers have settled similar claims.

SCE&G believes that additional insurance settlements could have a substantial impact on the amounts to be recovered in the MGP-ECC balance. It is anticipated that such additional settlements will be quantifiable in the future. At that time, the Company will have a more reasonable estimate of the impact of the unamortized balance, which may result in a possible change to either the length of the amortization period or to the level of the factor. SCE&G requests that the Commission recognize this additional liability to the City of Charleston as a prudently incurred expenditure that is appropriate for inclusion in the deferred environmental costs for which recovery through the MGP-ECC

factor will be provided in the future.

Carey M. Flynt testified and provided cost of gas data for the period September 1995 through August 1996, the historical period under review in this proceeding. She also provided computations for the projected costs of gas per therm for the period November 1996 through October 1997, and further, recommended a cost of gas component to be included in the Company's firm published tariffs beginning with the first billing cycle for November 1996. Ms. Flynt also presented testimony regarding the Company's method of recovery for Manufactured Gas Plant-Environmental Clean-Up Costs (MGP-ECC). Flynt provided discussion on the MGP-ECC factor on a per therm basis for the period November 1996 through October 1997 to be passed through in the PGA. This calculated figure amounted to \$0.006 per therm in Order No. 94-1117, and Flynt proposes no change. Flynt testified that, prior to the inclusion of the additional \$26 million for Charleston, the Company is seeking recovery of an unamortized balance of \$6,164,626. The original balance sought for recovery has been reduced by insurance settlement proceeds.

Flynt testified that the Company's currently approved rate for the cost of gas is 43.081 cents per therm, which was approved in Order No. 95-1617, dated October 25, 1995. Flynt testified that the Company has an actual under-collection of \$1,990,166 as of August, 1996. Flynt noted that the balance at October 31, 1996 is forecasted to be an under-collection of \$5,102,761.

Flynt also testified about the Company's projected gas cost

for the period November 1996 through October 1997. Flynt then went on to recommend that the Commission approve a rate of 42.800 cents per therm in the Company's firm rate tariffs. This recommended rate would cause a decrease to the Company's firm rate tariffs of .281 cents per therm.

Flynt further noted that, with regard to the \$26 million discussed in Darby's testimony, SCE&G requests that the Commission recognize this additional liability to the City of Charleston as a prudently incurred expenditure that is appropriate for inclusion in the deferred environmental costs for which recovery through the MGP-ECC factor will be provided in the future. Flynt testified that possible future insurance proceeds will reduce this \$26 million.

The Company also presented the testimony of Thomas N. Effinger. Effinger testified that he reviewed the documentation related to the City of Charleston's claims for compensation due to contamination in the Calhoun Park site area. The City, through a law firm, made a demand of \$43.5 million in settlement of contamination-related expenses arising out of the site. This was ultimately increased to \$45.7 million. Effinger stated his opinion that the \$26 million settlement was reasonable. He reviewed the backup materials that the City provided and categorized the costs they reflect.

According to Effinger, the most significant portion of the City's claim is directly related to the remediation, disposal, or containment of pollution on the sites in question. Other costs

reviewed by Effinger are incidental to the environmental contamination and clean-up efforts.

Effinger then concluded that the \$26 million is amply justified by the charges which the City was able to substantiate during the negotiation process.

The Commission Staff presented the testimony of Thomas L. Ellison and William O. Richardson. Ellison testified as to various under-recoveries seen by SCE&G in its recovery of gas costs through the PGA. He also reviewed the collection of the Environmental Clean-Up Costs. Richardson testified regarding SCE&G's gas supply purchases from SCPC. Richardson testified that his observations of SCE&G's gas purchasing policies indicate that the Company receives adequate supplies of firm gas to meet its captive customers' needs, and is prudent with regard to its purchase of gas supplies from SCPC. Also, according to Richardson, SCE&G is able to compete with industrial alternate fuel prices through the operation of the ISP-R. Richardson stated that it was the Utilities Department's opinion that the ISP-R has provided SCE&G with the opportunity to retain the industrial gas loads in competition with alternate fuels.

FINDINGS AND CONCLUSIONS

Based on the evidence in the record, the Commission makes the following findings and conclusions:

SCE&G testified that its forecasted cost of gas was based on the latest historic actual period of the 12 months ending August 1996. During this historical actual period, adjustments were made

for known and measurable changes, such as changes to rates from SCE&G's intrastate supplier and tariff changes from interstate suppliers to its intrastate supplier that are in effect or scheduled to be in effect during the forecasted period November 1996 through October 1997. The Company made other normalizing adjustments to the historic period in developing the forecasted price of natural gas to its customers. Based on this testimony, the testimony of Staff witnesses Ellison and Richardson, and the record as a whole, the Commission finds that: a) the cost of gas of 42.800 cents per therm is appropriate, and should be incorporated in SCE&G's firm tariff rates through October 1997, unless an out-of-period adjustment is found necessary due to changes in the Company's gas costs; b) in addition, the Commission believes that, based on the testimony, the company should also be able to continue to collect an additional \$.006 per therm in order to recover the ECC as testified to by the Company witnesses. The Commission also believes that a yearly review as is provided by passing this cost through the PGA is helpful and is in the public interest. The Commission would again note that this amount is in addition to the already approved 42.800 cents per therm; c) the ISP-R Program should be continued, based on the fact that it allows the Company to compete successfully for the industrial customers against alternative fuels; d) a review of the testimony in the record as a whole shows that SCE&G's purchasing practices are prudent, and that their gas supplies are adequate to meet the requirements of firm customers; e) the \$26 million is a prudently incurred expenditure

that is appropriate for inclusion in the deferred environmental costs for which recovery through the MGP-ECC factor will be provided in the future. We think that the testimony of the Company witnesses in the record of this case supports this conclusion. We also hold that these are legitimate environmental clean-up costs that are therefore prudent for recovery through the MGP-ECC.

The Consumer Advocate's Motion to defer recovery, and not allow recovery in the MGP-ECC factor, since, in the opinion of the Consumer Advocate, such costs are not gas costs, must be denied. Obviously, because of the foregoing reasoning, we disagree with the Consumer Advocate's reasoning. The costs involved are akin to the already deemed recoverable environmental clean-up costs, and are thus recoverable as gas costs. We note that, in the past, the Company has credited any recovered insurance proceeds to amounts otherwise collectible under the MGP-ECC. We note that there are outstanding insurance proceeds that may be credited eventually to the \$26 million discussed in this case. The Company is instructed to diligently pursue outstanding insurance settlements, and provide records and documentation to the Commission to support its actions. Of course, any proceeds collected should be credited towards the outstanding \$26 million balance, as has been the Company's past practice.

IT IS THEREFORE ORDERED THAT:

1. The Purchased Gas Adjustment of South Carolina Electric and Gas Company is hereby approved.
2. The gas cost of 42.800 cents per therm shall be effective

beginning with the first billing cycle in November 1996.

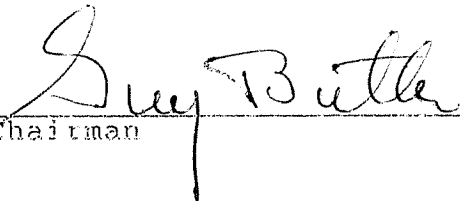
3. In addition to this figure, the Company will continue to add a factor of \$0.006 per therm in the PGA, related to the environmental clean-up costs. Staff shall review and audit the Company's collection of these additional monies as part of Staff's yearly review of the Company's PGA and Gas Purchasing Policies. The \$26 million settlement between the City of Charleston and the Company is prudent for collection through the MGP-ECC, but, the Company shall diligently pursue insurance proceeds to offset this amount. The Consumer Advocate's Motion is denied.

4. The tariffs and rate schedules shall be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

5. For the period September 1995 through August 1996, SCE&G's gas purchasing practices and the recovery of its gas costs were prudent and undertaken in accordance with tariffs and rate schedules approved by the Commission for South Carolina Pipeline Corporation and SCE&G. The current ISP-R program shall be continued.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

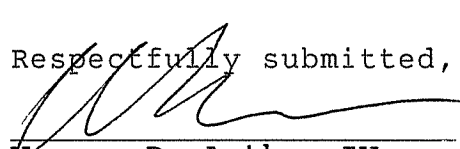
COMMISSIONER WARREN D. ARTHUR IV, DISSENTING:

I respectfully dissent from the majority's opinion in this matter for the following reasons:

1. I believe that this Commission, as a regulatory body, exists to balance interests between the ratepayers and the Company and its shareholders. The Company's management and the shareholders should have to bear some of the burden in this instance, as no one could say that this situation is wholly the fault of the ratepayer.
2. We do not know how much will actually be passed on to the ratepayers because negotiations for insurance proceeds could in fact cover some or most of these costs. Allowing for the full pass through now may cause the Company to be less aggressive in attempting to collect from insurers. I feel that a more appropriate motion would have allowed for a decision at a later date after the insurance matter is settled.
3. An alternative solution would have been to allow SCE&G to allow for this expense through accounting treatment. If in fact the funds are required at a later date, the Commission then could have granted the needed funds at that time for ratemaking purposes.
4. I feel that this Commission did not have enough information in the Hearing Record to make an informed decision about the environmental claims by the City of Charleston against SCE&G.

For these reasons I do not agree with the majority decision.

Respectfully submitted,



Warren D. Arthur IV
Sixth District